

AR29

CANADIAN MARCONI COMPANY

64TH ANNUAL REPORT 1966



THE FIRST NAME IN RADIO-ELECTRONICS



CANADIAN MARCONI COMPANY

Head Office and Plant:

2442 Trenton Avenue, Montreal 16,
Quebec, Canada

Directors

C.-É. BÉLANGER, C.A.
Senior Partner
Bélanger, Saint Jacques, Sirois, Comtois & Cie.
Sherbrooke, Canada

J. A. BOYD
Toronto, Canada

†R. A. EMERSON
President and Chief Operating Officer
Canadian Pacific Railway Company
Montreal, Canada

S. M. FINLAYSON
Chairman and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

W. V. GEORGE
President
Canadian Marconi Company
Montreal, Canada

HAZEN HANSARD, Q.C.
Senior Partner
Howard, Cate, Ogilvy, Bishop, Cope, Porteous & Hansard
Montreal, Canada

HON. A. K-HUGESSEN, Q.C.
Counsel
Smith, Davis, Anglin, Laing, Weldon & Courtois
Montreal, Canada

H. J. LANG
President and Chief Executive Officer
Canada Iron Foundries Limited
Montreal, Canada

THE RT. HON. LORD NELSON OF STAFFORD
Chairman and Chief Executive
The English Electric Company, Limited
London, England

J. G. NOTMAN, O.B.E.
Director
Canadair Limited
Montreal, Canada

SIR GORDON RADLEY, K.C.B., C.B.E.
Director
The English Electric Company, Limited
London, England

†Deceased, March 13, 1966

Officers

S. M. FINLAYSON
Chairman and Chief Executive Officer

W. V. GEORGE
President

L. M. DALEY
Executive Vice President — Operations

A. G. McCAUGHEY, C.A.
Executive Vice President — Finance and Administration
and Secretary-Treasurer

F. B. DANCER, C.A.
Vice President and Comptroller

S. B. HAYWARD
Vice President — Broadcasting Division

W. R. BITCHENO
Vice President — Commercial Products Division

J. H. MARTIN
Vice President — Marine and Land Communications Division

R. MACLEOD
Vice President — Special Services Division

J. A. HOWLETT
Vice President — Industrial Relations Division

C. W. PERRY
Assistant Secretary

E. D. HICKIN
Assistant Treasurer

Registrar

MONTREAL TRUST COMPANY
Montreal, Canada

Transfer Agent

EASTERN & CHARTERED TRUST COMPANY
625 Dorchester Blvd. West, Montreal, Canada

Auditors

PRICE WATERHOUSE & CO.
Montreal, Canada

Bankers

BANK OF MONTREAL
FIRST NATIONAL CITY BANK
BANK OF AMERICA

Financial Highlights

	1966	1965	1964	1963
Sales and revenues	\$61,578,000	\$60,473,000	\$54,128,000	\$52,240,000
Income from operations.	10,999,000	9,835,000	8,141,000	6,318,000
Depreciation and amortization.	2,483,000	1,939,000	1,434,000	1,212,000
Net income	1,631,000	2,236,000	2,023,000	1,709,000
Number of shares issued	5,402,902	5,402,902	4,554,682	4,554,682
Net income per share30	.41	.44	.37
Dividends	540,000	810,000	569,000	273,000
Dividends per share10	.15	.12½	.06
Shareholders' equity	17,406,000	17,016,000	12,770,000	11,316,000
Shareholders' equity per share	3.22	3.15	2.80	2.48
Working capital	8,808,000	12,819,000	7,624,000	6,968,000

The Annual General Meeting of Shareholders will be held at the Company's Head Office in the City of Montreal, 380 Aberdare Road entrance, on Thursday morning, March 23rd, 1967 at 11:00 o'clock.

Canadian Marconi Company is associated with English Electric, a world-wide organization employing more than 80,000 people in the electrical and electronic engineering business with annual sales of over \$750,000,000.

Directors' Report to the Shareholders

The Company's total volume of business in 1966 exceeded that of the previous year; a significant accomplishment having in mind that the home entertainment business, which has accounted for a substantial sales volume, was discontinued in favour of other products calculated to contribute more to the future welfare of the Company, and the Mid-Canada Line was phased out — the two totalling a volume of nearly \$17 million annually.

The net income at \$1,631,006 was achieved after incurring the largest expenditures in the 64-year history of the Company for technical and commercial development and modernization of facilities. One hundred thousand square feet of re-assigned floor space is now fully occupied and the need for more production capacity is already apparent. The expenditures for improved facilities and for new product development totalling approximately \$10 million were divided almost equally between the two. Changes of major importance in addition to the manufacturing area modernization and expansion included colour transmission equipment for the T.V. station, specialized testing apparatus and machine tools required for the production of precision equipment. The expenditures for product development have resulted in further gains in domestic and foreign markets for the Company's products both defence and commercial. It is interesting to note that exports in 1966 accounted for 47% of the sales of the Company's products and some 80% of the Company's total dollar income was derived from goods and services that did not even exist as recently as 1960.

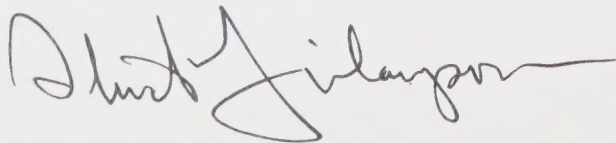
The staff-training programme has been intensified to meet the requirements of new and expanding production with special emphasis on the development of rewarding careers for Canadian Marconi people.

If these forward-looking expenditures on plant and product development had not been made, 1966 would have been the fifth successive year of record profit, but pursuit of that policy would have compromised the long-term profitability of the Company's operations. As it is the Company has, in many ways, entered a new era and is well equipped to face the challenge of the future. The order backlog is healthy; domestic and export sales are increasing as the technical and commercial efforts develop. The Mexican Company, "IRASA", is making progress and much attention is being devoted to the wholly-owned subsidiary in the United States, Kaar Electronics Corporation. More detail on the operations of the four divisions of the Company appears later in this Annual Report.

The Directors record with deepest regret the death in March 1966 of Robert A. Emerson, a member of our Board and a distinguished Canadian. Mr. Emerson made a most valuable contribution to the affairs of this Company and his wise counsel and sound judgement will be sadly missed.

The Directors wish to express appreciation of the efforts of all employees, now numbering some 4,300, for a year of achievement made possible by the interest and dedication of so many men and women in widely scattered locations.

On behalf of the Board of Directors,



Chairman and Chief Executive Officer.

Montreal, January 30, 1967

Consolidated Statement of Income

for the year ended December 31, 1966

CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

	1966	1965 (Note 5)
Sales and revenues	\$61,578,000	\$60,473,000
Income from operations before the charges shown below (Note 2).	\$10,998,903	\$ 9,834,831
Research and development	4,986,810	3,139,838
Depreciation	2,483,235	1,939,430
Interest (Note 3)	997,852	568,916
	8,467,897	5,648,184
Income before income taxes	2,531,006	4,186,647
Income taxes	900,000	1,950,000
Net income	\$ 1,631,006	\$ 2,236,647

Auditors' Report

To the Shareholders of Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at December 31, 1966 and the consolidated statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the combined financial position of the companies as at Decem-

ber 31, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Montreal, Canada, January 30, 1967

Consolidated Balance Sheet

December 31, 1966

CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

Assets	1966	1965
Current assets:		
Cash	\$ 146,640	\$ 154,264
Accounts receivable.	11,620,471	11,198,380
Inventories, at the lower of cost or net realizable market.	18,920,093	15,436,006
Prepaid expenses	1,597,665	1,270,498
	<u>32,284,869</u>	<u>28,059,148</u>
Sundry assets:		
Deferred accounts receivable.	126,090	123,128
Investments in and advances to associated companies, at cost less amounts written off	104,891	6,250
	<u>230,981</u>	<u>129,378</u>
Fixed assets:		
Land, buildings and equipment, at cost	24,613,005	19,696,873
Less: Accumulated depreciation	10,345,680	8,765,343
	<u>14,267,325</u>	<u>10,931,530</u>
	<u><u>\$46,783,175</u></u>	<u><u>\$39,120,056</u></u>

Approved on behalf of the Board:

S. M. Finlayson, Director

W. V. George, Director

Liabilities and Capital

1966

1965

Current liabilities:

Bank loans and acceptances	\$12,600,859	\$ 4,005,683
Accounts payable and accrued liabilities	10,136,747	9,213,090
Accrued income taxes	633,398	1,730,990
Sales and excise taxes payable	105,440	290,278
	<u>23,476,444</u>	<u>15,240,041</u>

Long-term debt:

5¾% unsecured sinking fund debentures, series A, due May 1, 1988 (Note 1)	5,900,000	6,000,000
5½% note payable — \$800,000 U.S. funds (repaid during year)	—	864,000
	<u>5,900,000</u>	<u>6,864,000</u>

Capital:

Capital stock		
Authorized—		
7,500,000 shares of \$1 each		
Issued—		
5,402,902 shares	5,402,902	5,402,902
Contributed surplus	2,651,533	2,651,533
Retained earnings	9,352,296	8,961,580
	<u>17,406,731</u>	<u>17,016,015</u>
	<u>\$46,783,175</u>	<u>\$39,120,056</u>

Consolidated Statement of Retained Earnings

for the year ended December 31, 1966

CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

Retained earnings, beginning of year		\$ 8,961,580
Net income		1,631,006
		<u>10,592,586</u>
Deduct:		
Dividends — 10 cents per share	\$540,290	
Balance of estimated cost of terminating the Home Electronics Division operations, less applicable income taxes	700,000	1,240,290
		<u>1,240,290</u>
Retained earnings, end of year		<u><u>\$ 9,352,296</u></u>

Notes

to Consolidated Financial Statements December 31, 1966

Note 1: Sinking fund provisions of the series A debentures require payments of \$100,000 annually in the years 1967 to 1970 and \$150,000 in 1971. In 1966, debentures having a face value of \$100,000 were purchased to meet the 1967 requirement.

Note 2: Income from operations is stated after charging remuneration of directors and of officers who are directors — \$116,291.

Note 3: Interest expense includes \$375,575 on long-term indebtedness.

Note 4: The accounts of United States subsidiaries have been translated into Canadian dollars at the rate of \$1.08 to the U.S. dollar. This rate has not changed materially since inception of the U.S. subsidiaries.

Note 5: Certain amounts shown in the statement of income for 1965 have been reclassified for purposes of comparability.

Corporate Affairs

The company's IBM 360/30 has been in service for nearly a year and is now performing most of the routine accounting functions. Its capacity is being increased so that its influence may be felt in many other areas. In particular, engineering problems are being solved with FORTRAN programmes and data collection devices are being installed on the factory floor for more efficient production scheduling and cost control.

In recent years, management has implemented a number of organizational changes and invested in much highly sophisticated equipment. This has been done as part of the effort to increase this company's share of market. However, sophis-

ticated systems and tools and competitive markets require skilled, thinking, people. Therefore, eighteen months ago a manpower development group was established within the company's Industrial Relations Division. Under its direction, in recent months managerial and supervisory personnel, in groups of sixteen, have been attending an intensive five-day management seminar, which will be followed by further and more advanced training. Results of this activity are already apparent with more and more employees becoming better equipped to build their own careers and contribute more effectively to corporate success.

From April 28 to October 27, 1967, at Montreal, Canada will sponsor and be host to the people of the world at the biggest ever International World Exhibition EXPO 67. Covering over one thousand acres and with over seventy nations participating it will present more than one hundred national, theme and industrial pavilions plus a vast amusement park and a marina which can berth seven hundred and forty-four yachts and small boats. Canadian Marconi is proud to be participating in what will be an artistic

and physical achievement of extraordinary merit. It will be represented in two separate areas: one of the privately sponsored "Pavilion of Economic Progress", and the other, organized by the Province of Quebec and known as The Quebec Industries Pavilion, both illustrated on this page.

1. One of the many groups of company personnel taking part in a CMC Advanced Management Seminar.

2. Photographed at the ground-breaking ceremony of The Pavilion of Economic Progress, EXPO 67, are Pavilion President, J. A. Fuller, flanked l to r by CMC President, W. V. George and CMC Chairman and Chief Executive Officer, S. M. Finlayson. Kneeling (foreground) is EXPO 67 General Manager, A. G. Kniewasser.

3. The Quebec Industries Pavilion is composed of many interconnecting hexagonal cells, each representing a particular industry. Canadian Marconi is a participant in the Electronic Sector.

4. Canadian Marconi along with twenty-three others will tell the story of Canada's economic progress during an animated puppet musical at the Pavilion of Economic Progress, EXPO 67.



1



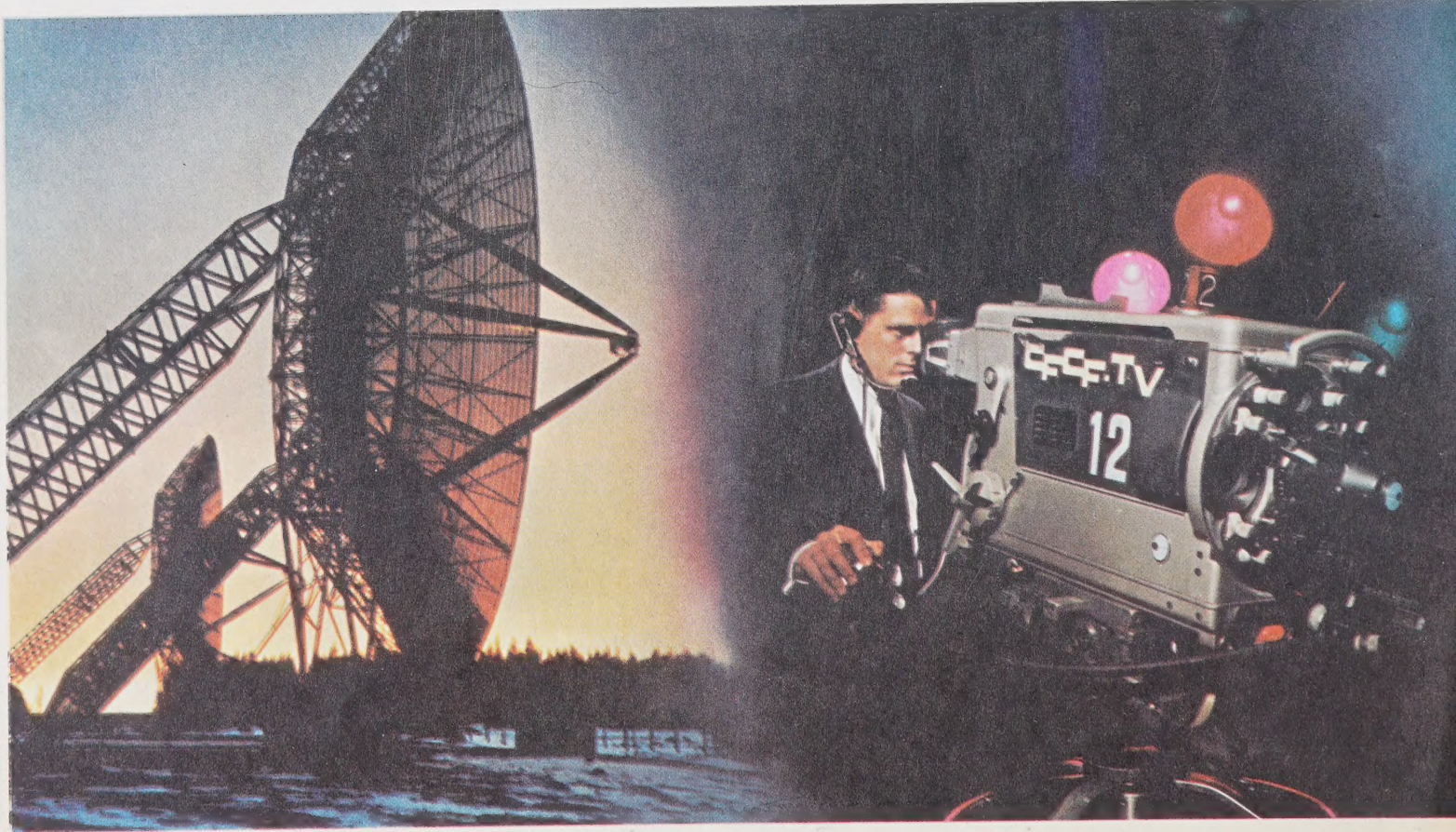
2



3



4





PRODUCTS AND SERVICES

Broadcasting Division

Television and Radio broadcasting of entertainment, education and information over CFCF-TV, Channel 12, CFCF-AM/FM (600 kc./92mc.), CFCX-SW (6005 kc.), Montreal. Producers of programs. Producers of commercials.

Commercial Products Division

Airborne Doppler sensors for fixed and rotary wing aircraft. Airborne computers and indicators for navigational and tactical use. Altimeters. High frequency transmitters and receivers, including single sideband systems. Tactical radio relay equipment. Repair and overhaul facilities for all products. System engineering of navigation and communications systems.

Marine & Land Communications Division

High frequency AM and single sideband and very high frequency FM radiotelephone equipment. Selective and tone calling units. Hailing equipment. Directions finders. Echo sounders. Fish finders. Loran. Marine radar. Precision electronic test instruments and industrial control systems.

Special Services Division

Installation of radar, communications and air navigation equipment and systems. Construction and installation of large communications antenna systems. Installation, operation and maintenance of defence communications and detection systems, operation of large defence radar maintenance depot, diesel engine generator overhaul depot, and test equipment repair and calibration laboratory. Installation, operation and maintenance of high capacity communications systems. Commercial test equipment repair and calibration service.

CANADIAN MARCONI COMPANY

2442 TRENTON AVENUE, MONTREAL 16, P.Q.



Free 93



INTERIM REPORT TO THE SHAREHOLDERS

FIRST HALF
1966

CANADIAN MARCONI COMPANY

The First Name in Radio-Electronics



CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED JUNE 30*

*Unaudited Interim Report

	1966	1965
SALES AND REVENUES	\$27,076,000	\$27,588,000
INCOME FROM OPERATIONS	2,909,412	3,215,445
ALLOWANCE FOR DEPRECIATION AND AMORTIZATION	1,217,335	920,954
NET INCOME FOR THE PERIOD	725,790	1,103,165

TO THE SHAREHOLDERS

Events of the first half of 1966 provide clear evidence of the forward thrust of the Company. Progress is summarized in the statement that 60 per cent of our total business in 1965 came from goods and services that did not exist five years before and we expect that figure to grow to 80 per cent in the current year.

Highlights of the past six months supporting that summary make interesting reading:

- (a) Our radio station has increased its daily schedule to 24 hours, separate programming on our F.M. station is being increased, and our television station has started experimental colour transmission, assuring readiness for the official inaugural date of September 1st, 1966. Service to our audiences has thus been improved and strengthened, and the economic potential enhanced.
- (b) The capital and facilities previously devoted to the radio and television home receiver business which was discontinued at the end of last year is now re-employed; the hundred thousand square feet of manufacturing space made available is almost entirely modernized, re-equipped and is a vitally important element in our production facilities. Thus the total production capacity is now better able to keep pace with our growing market penetration and new product introduction. Total employment is now four thousand — an increase of some four hundred people in the period under review.
- (c) New products, several of them representing technical breakthroughs, are now coming on the market and are

being well received both at home and abroad.

- (d) Kaar Electronics Corporation, our United States subsidiary, has been re-organized and strengthened. It is making progress towards a position of profitability and its sales are growing at an encouraging rate.

Although short-term profits could have been increased by minimizing technical and commercial development, we are convinced that to maintain and stabilize the long-term growth and profitability of the Company, it is essential to provide a continuous stream of new, sophisticated, electronic products sold more and more effectively in continually broadening markets. Accordingly, in the first half of 1966 \$2,260,000 was expended in commercial and technical development and \$2,632,000 was invested in plant and equipment. These outlays have been made to enable us to handle increasing volume in the activities on which we are concentrating and to keep our operation and range of products competitive.

While this program of investment is a burden on current earnings as compared with last year, we are able to report a net profit of \$725,790 for the first half of 1966 which is slightly ahead of budget and we expect that results for the second half will be better.

A semi-annual dividend of five cents per share was paid on June 30, 1966 to shareholders of record June 9, 1966.

On behalf of the Board of Directors

Chairman and Chief Executive Officer
Montreal, P.Q., July 28, 1966